Audit's NEWS ANALYSIS OF SECURITIES OF REAL ESTATE INVESTMENT TRUSTS

# Realty Trust Review

December 9, 1974 VOL. V, No. 23

VALUE GUIDE TO TRUSTS REVIEWED THIS ISSUE

| Trust | Rel. Appeal | Port. Yield | -12Mo.Port.Chng.- Last | E.Next | Lever. Ratio | Price | Ann. Yield* | Div. Reinv. | Page |
|---|---|---|---|---|---|---|---|---|---|
| Baird & Warner Mtg. | 3 | 12.37% | -11% | 0% | 1.60 | $4.25 | 23.5% | No | 2 |
| Barnes Mtg. | 4 | 14.15 | 35 | 0 | 2.27 | 2.25 | 17.7 | No | 3 |
| Beneficial Standard | 4 | 14.05 | 1 | -5 | 1.99 | 4.75 | 15.1 | Yes | 4 |
| Central Mtg. | 3 | 15.15 | 1 | 0 | 2.20 | 9.00 | 17.7 | No | 4 |
| First Commerce | 3 | 16.22 | 50 | -10 | 1.77 | 8.63 | 27.8 | No | 5 |
| Guardian Mtg. | 5 | 13.14 | 13 | 0 | 3.23 | 2.00 | 0.0 | Yes | 6 |
| M&T Mtg. | 3 | 13.40 | 2 | 0 | 1.80 | 4.50 | 23.1 | Yes | 6 |
| Nationwide R.E. | 4 | 10.79 | -17 | 5 | 0.74 | 3.25 | 12.3 | No | 8 |
| TMC Mtg. | 4 | 17.58 | 66 | 0 | 4.56 | 5.50 | 37.0 | No | 7 |
| AVERAGE | | 14.10% | 14% | - 1% | 2.24 | | 19.3% | | |

* Based on annualized latest qtr. Bid price for OTC stocks.

These three measures are selected to aid investors. Averages for the measures are shown so each trust may be compared to the average. Portfolio yield is a general measure of risk to the investor, with highest yield typically the riskiest for mortgage trusts. This connotation does not apply to equity trusts since manner of purchase and lease terms can cause wide variations. Changes in funded portfolio indicate relative dynamism of increases in earning assets, although holdings of equity trusts typically will increase much more slowly than mortgage trusts. Leverage ratio indicates a trust's ability to obtain external non-convertible funds, although recent financings or policy decisions may lower this ratio temporarily. Leverage is the ratio of all non-convertible debt to the trust's capital (equity plus convertibles plus subordinated debt). Ratios above 3.0 are rare and may portend capital financing. NE-No estimate.

Trusts with dividend reinvestment plans for shareholders are indicated above. Further information is available from the trusts themselves. Statistical summaries for each trust reviewed show the trust's operating record for the four latest quarters, including ranges for share prices and dividend yields. Price ranges are those for calendar quarters. Where calendar quarters and a trust's interim do not coincide, prices are shown for the calendar quarter covering two months of the trust interim.

## SMALLER SHORT-TERM TRUSTS SHOW DIVIDEND STABILITY AS REWARD FOR STAY-AT-HOME PHILOSOPHY

The nine short-term mortgage trusts reviewed this issue illustrate the axiom that in construction lending, bigger is not always better. The only trust with invested assets significantly over $100 million is *Guardian Mortgage*, with $442 million invested; like many of the larger and higher leveraged trusts, problem loans and liquidity pinches have forced it into a revolving credit agreement with its lenders that preclude payment of quarterly dividends and effectively enforce a prolonged workout period. The other eight are all smaller, the largest having $101 million invested assets, and their strongest point is that they have by and large shunned rapid growth and higher leverage in favor of serving a familiar regional construction market. They have tended to be overlooked by Wall Street simply because they stayed home and tended their knitting. The stocks of six are traded over-the-counter, hardly the place to excite traders or investors.

Yet the validity of their stay-at-home strategy is evidenced by the table above showing that eight of the nine are still paying quarterly dividends. With only 22 of the 59 short-term mortgage trusts still paying quarterlies, this accomplishment has to be rated major proof of their conservative management ability. None of the eight smaller trusts has yet been forced by their banks into the revolving credit agreements which are tying the hands of many major trusts. These revolving credit agreements generally limit

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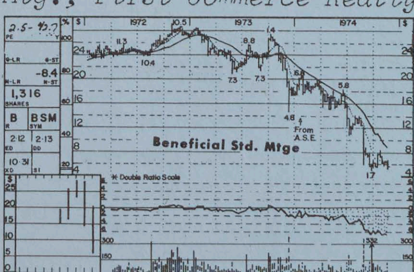
SIX KEY RATIOS

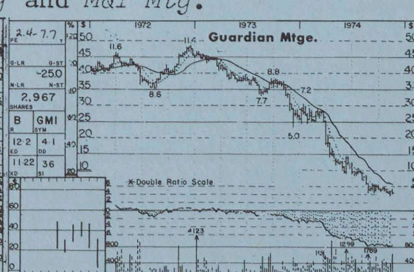
| | Loss Res.* | -Portfolio-- %Land | %Condo | Exp. Ratio# | -Floating Port. | Rate- Funds |
|---|---|---|---|---|---|---|
| Baird & Warner Mtg. | 0.86% | 8% | 18% | 0.72% | 70% | 57% |
| Barnes Mtg. | 1.24 | 23 | 59 | 1.55 | 97 | 69 |
| Beneficial Standard | 1.10 | 21 | 12 | 1.64 | 67 | 67 |
| Central Mtg. | 0.84 | 18 | 3 | 1.52 | 71 | 67 |
| First Commerce | 0.41 | 40 | 5 | 1.98 | 85 | 62 |
| Guardian Mtg. | 1.49 | 31 | 16 | 1.24 | NA | 76 |
| M&T Mtg. | 0.52 | 18 | 0 | 1.22 | 65 | 64 |
| Nationwide R.E. | 1.69 | 7 | 22 | 1.69 | 38 | 42 |
| TMC Mtg. | 0.69 | 8 | 56 | 1.99 | 98 | 82 |
| AVERAGES | 0.98% | 19% | 21% | 1.51% | 74% | 64% |

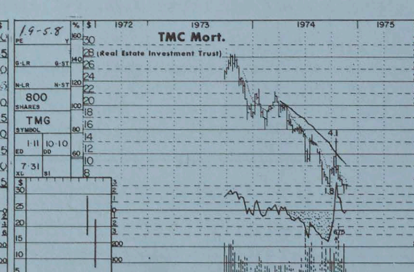
* Based on mtg. investments. # Based on avg. gross portfolio.

leverage ratios, ban new commitments except to complete current projects, and permit dividends only once a year after annual financial statements are audited. Most agreements call for interest at 130% of the prime rate with no compensating balances required, vs. an effective 125% of prime under typical compensating balance requirements. Some trust managers criticize these agreements as being devices for transferring shareholders' equity from the trust to the bank in the form of interest and certainly this will be the fact if not the intent of the agreements. Subscribers will recall that we have urged avoidance of trusts hamstrung by revolving credits. Some trusts forced into revolvers are asking shareholders to leave qualified REIT status, with *Great American Mortgage* being the latest and seventh to do so. In sharp contrast, four smaller trusts reviewed this issue are making new commitments, *Nationwide* on an active basis and *Baird & Warner*, *First Commerce* and *M&T* selectively. Problem loans are well controlled, with six of the eight having less than 10% of investments in non-earning status. Generally this results from a high proportion of standard urban properties outside the growth areas of Florida and Texas, where overbuilding has been most pronounced. In other words, the construction depression of 1974 has not yet impaired their ability to survive and think of future growth.

While many risks and uncertainties abound in the economy, investors may do some speculative nibbling on shares of the four trusts ranked No. 3 (average): *Baird & Warner Mtg.*, *Central Mtg.*, *First Commerce Realty* and *M&T Mtg.*








*Charts courtesy Mansfield*

BAIRD & WARNER MORTGAGE AND REALTY INVESTORS (4¼--OTC-BAIDS) FY Jul. 31

| Quar. | Port. | Port.Yld. | Non-earn.Inv. | EPS Prim. | Div. | -Price range- | -Yld.range- |
|---|---|---|---|---|---|---|---|
| 1/74 | $55.1M | 13.82% | 2.3% | $0.50 | $0.49 | $19.13-12.00 | 16.3-10.3% |
| 4/74 | 56.3 | 10.92 | 4.1 | 0.40 | 0.40 | 15.38-11.75 | 13.6-10.4 |
| 7/74 | 57.2 | 13.22 | 6.4 | 0.11 | 0.14 | 12.50- 8.00 | 7.0- 4.5 |
| 10/74 | 58.0P | 12.37P | 9.0P | 0.26 | 0.25 | 8.25- 4.00 | 25.0-12.1 |

P-Preliminary

Portfolio dynamics: Based on preliminary portfolio figures, investments declined about 11% from last year. Management expects no growth in the next year but the trust is making new commitments on a very selective basis. These new commitments are being made on "traditional" type projects with permanent mortgage takeouts. The portfolio at Oct. roughly breaks down as 70% constr. (a good number of these loans are on completed properties), 12% equity investments, 8% land, 6% standing and 4% property acquired through foreclosure. The property acquired through foreclosure consists of three properties for $2.37 million. One property is land in Memphis, Tenn. which is being offered for sale. The other two properties are two completed quadrominium projects in Aurora, Ill. and Medina, O. acquired in the bankruptcy of Building Systems, Inc. One project has

a contract for sale pending while the other is being offered for sale. By type of project, commitments are 30% apartments, 21% industrial, 18% condominiums, 11% office buildings, 10% other, 6% land and 4% shopping centers. About 90% of investments are located in Ill., Ind., Wis. and Mich. In the next year management expects investments in apts. and condos to decline while industrial properties will increase. About 60% of loans have permanent takeouts. Presently about 70% of loans are floating with market rates. In addition to the foreclosed properties, the trust is not recognizing interest on nine loans for $2.86 million. Most are secured by land on which development has not commenced and are located in the Midwest. Foreclosed properties and non-accruals amount to roughly 9% of the portfolio.

Financing & liquidity: Trust is funded about 38% by capital and 62% by non-convertible debt. Capital of $23 million is roughly 83% equity with 1.04M shares and 17% in 6-3/4% convertible debentures. Debt of $37.5M is 92% in bank loans and 8% in mtg. About 57% of funds float with market rates. Trust has borrowed $34.5M under bank lines of $48M, an amount management feels is adequate. Unfunded commitments are $20.8M. No revolving credit agreement is being sought. Sponsor: Baird & Warner, Chicago mtg. banking and realty firm. Results & outlook: The July results were hurt mainly by a $440T (or 42¢/sh.) addition to the loss reserve. It appears that the Oct. qtr. was harmed by a decline in gross revenue resulting most likely from problem investments and certain low-yielding FHA loans for $7.8 million. Trust anticipates being out of these FHA investments in three to four months. Portfolio does not have great exposure to the shaky land and condo areas and problem loans seem under good control. Dramatic gains in earnings and dividends are not expected near term due to high interest cost, slow funding growth and workout time for problem investments. Shares are being upgraded to "3" (average) relative appeal ranking based on the belief that this trust can at least maintain its earnings and dividends near term and produce modest gains further down the road. (VCK)

BARNES MORTGAGE INVESTMENT TRUST (2--OTC-BARNS) FY Sept. 30

| Quar. | Port. | Port.Yld. | Non-earn.Inv. | EPS Prim. | Div. | -Price range- | -Yld.range- |
|---|---|---|---|---|---|---|---|
| 12/73 | $83.7M | 15.03% | 0.0% | $0.50 | $0.50 | $18.38-10.50 | 19.1-10.9% |
| 3/74 | 93.9 | 13.95 | 1.5 | 0.54 | 0.50 | 15.00-11.25 | 17.8-13.3 |
| 6/74 | 99.2 | 14.20 | 3.8 | 0.20 | 0.20 | 13.00- 8.00 | 10.0- 6.2 |
| 9/74 | 99.7 | 14.15 | 12.7 | 0.10 | 0.10 | 8.50- 2.75 | 14.5- 4.7 |

Portfolio dynamics: During the year ended Sept. 30, investments increased by 35%. Management does not expect any portfolio growth in the next twelve months and a slight decline is even likely as new commitments are not being made. The portfolio by loan type is 72% constr., 21% development, 2% each land loans, wrap-around loans and intermediate-term and 1% standing. Holdings, heavily concentrated in middle income housing loans, have the following property type breakdown: 59% condominiums, 14% development, 8% single-family, 7% standby, 4% apartments, 3% shopping centers, 2% each mobile home parks and office buildings and 1% land. Heavy concentration in condos gives the portfolio a riskier tone although management states that the Michigan market (33% of loans are located there) is not overbuilt. Loans are located in 9 states and P.R. with this concentration: Mich.-33%, P.R.-30% and Fla.-23%. With the prime at 10-10½%, some 97% of the portfolio is now floating with market rates. Trust recently announced that as of Oct. 1 it had stopped accruing interest on 19 loans for $21.7 million or 22% of the Sept. portfolio. Some 15 of these loans are constr. loans on apartments and condos with most located in Michigan. The remaining 4 loans are land devel. loans with one located in P.R. About $6.0 million of these loans are in foreclosure.

Financing & liquidity: Trust is funded 31% by capital and 69% by non-convertible debt. Capital of $35.2 million is all equity with 1.91M shares. Debt of $79.7M is all short-term bank loans, using nearly all of its $81M bank lines. Unfunded commitments are $88.0M at June. Trust is not considering any revolving credit agreement. Sponsor: James T. Barnes & Co., Detroit mortgage banker. Results & outlook: The last two quarter's earnings were down due primarily to higher interest costs and large additions to the loan loss reserve ($0.29 per share in both quarters). Significant increase in non-accruals will hold down Dec. results. Heavy exposure to condos can cause more non-accruals. A relative appeal ranking of 4 (below average) is maintained until real estate market conditions improve. (VCK)

BENEFICIAL STANDARD MORTGAGE INVESTORS (4 3/4--NYSE-BSM) FY July 31

| Quar. | Port. | Port.Yld. | Non-earn.Inv. | EPS Prim. | Div. | -Price range- | -Yld.range- |
|---|---|---|---|---|---|---|---|
| 1/74 | $100.4M | 14.28% | 2.5% | $0.76 | $0.77 | $27.38-14.50 | 21.2-11.3% |
| 4/74 | 110.7 | 14.05 | 0.5 | 0.79 | 0.77 | 20.50-17.50 | 17.6-15.0 |
| 7/74 | 104.7 | NA | 7.0 | 0.33 | 0.58 | 18.38-12.25 | 18.9-12.6 |
| 10/74 | 101.0 | NA | 20.0 | 0.36 | 0.18 | 14.00- 4.88 | 14.8- 5.1 |

Portfolio dynamics: Holdings were little changed the past 12 months, 1% higher and down 9% the last two qtrs. Policy since early in the year was to slow new commitments and fundings. Portfolio reduction should occur over the next 12 months. Portfolio is diverse by property type: 11% apartments, 5% single family homes, 7% shopping centers, 9% hotels and motels, 19% land development, 6% mobile home parks, 8% office buildings, 2% land loans, 6% industrial buildings, 12% condominiums, 3% warehouses and 12% other. Mix is essentially first mortgage construction (70%) except for the land and land development while some 7% is intermediate. Geographic coverage is broad, 21 states with the greatest concentration 19% Florida, 21% Arizona, 12% Louisiana, 7% each California, Colorado, Texas and Missouri; 3% Canada (Vancouver) and 4% Alaska into which the trust moved strongly this year. Unfunded commitments are only $22M but only $7M are being processed. Takeouts cover 50% of the portfolio. Some 84% floats with prime but some had reached ceilings, leaving roughly 67% floating at Oct., more now with the prime lower. Traditionally, the trust has been cautious to avoid large builders and fill a specialty niche in less competitive regards. This proved satisfactory till about mid-1974 when problem loans began rising somewhat in line with industry experience generally. About 46% of holdings may be considered in the more speculative and difficult property types for today's market; land and land development, condos, and hotels/motels. Thus the 20% of portfolio ($21M) non-earning as of Oct. 30 is in line with the short-term mortgage group average of 21.8%. Nearly half the problem total is in land development loans which are being stopped during current adversities. While geographically diversified, most are in Florida, Arizona and Louisiana, about $3M in each. Other big chunks are a $2M warehouse in Texas and $2.3M land in Colorado. Further details will be made in shareholder reports.

Financing & liquidity: The trust is funded 33% capital and 67% debt. Capital of $37.45M is 76% equity, 1.35M shares, and 24% in 6½% conv. debentures. Debt of $74.5M is 80% short-term bank debt and 20% bank term loan also tied to prime. Some 67% of funds float with prime. The Trust increased its bank lines of credit to $91.5M earlier this year. Bank lines are holding and the trust has not been forced into a revolving credit arrangement. Nevertheless, the adviser is fearful of being asked to go along with much of the trade to revolvers. Sponsor: Beneficial Standard Corp., holding company engaged in real estate development and insurance. Results & outlook: Oct. quarter earnings increased 9% from the revised July quarter, the final fiscal qtr. when audited results caused year-end adjustments. The decline in the prime rate during Oct. helped improve spreads part of this period but borrowing costs still averaged high. Although the portfolio is believed essentially sound and conservative, a fair amount of lengthy workout is necessary in the current environment. If not unduly pressured by economic circumstances and creditors, BSM should remain a profitable and regular dividend payer. Until externals clear up, however, shares must be considered "4" rated, somewhat below average. (BS)

CENTRAL MORTGAGE & REALTY TRUST (9 3/4--OTC-CMRTS) FY Mar. 31

| Quar. | Port. | Port.Yld. | Non-earn.Inv. | EPS Prim. | Div. | -Price range- | -Yld.range- |
|---|---|---|---|---|---|---|---|
| 12/73 | $38.9M | 14.93% | 0.7% | $0.59 | $0.57 | $20.50-16.00 | 14.3-11.1% |
| 3/74 | 39.6 | 13.86 | 1.5 | 0.57 | 0.57 | 19.00-16.25 | 14.0-12.0 |
| 6/74 | 39.6 | 14.98 | 0.8 | 0.40 | 0.48 | 18.75-13.50 | 14.2-10.2 |
| 9/74 | 40.2 | 15.15 | 8.0 | 0.45 | 0.40 | 13.50- 7.00 | 22.9-11.9 |

Portfolio dynamics: The portfolio which increased 1% over the past year should be down slightly in the next twelve months. The trust is not making any new commitments and repayments should about equal payouts in the next 12 months. Current unfunded commitments are about $5.3 million. Investments by type of loan are 45% constr., 33% intermediate, 18% devel., 2% real estate owned and 1% each wraparound and land purchase/leaseback. The 18% in devel. loans represents the most exposed portion of the portfolio. Loans by property type are 27% apartments, 19% townhouses, 14% single family, 13% commercial,

10% mobile home parks, 9% other (mostly office and industrial buildings), 5% hotels and motels and 3% condominiums. Investments are located in 15 states with concentrations in Minn. and Mo. About 50% of constr. loans are covered by takeouts. Some 71% of total investments presently float with market rates. Trust has eight loans amounting to $3.2M on which it is not accruing interest. Five of these loans are in foreclosure, one is going into foreclosure and two are being worked out. Four of the loans are located in Minn. Of these four loans, one is a completed apartment project, one is a completed townhouse project, another is a mobile home park and the last is land on which apartments are to be built. Two loans for $1.2M, which are in a workout stage, are construction loans on apartments in New Jersey. The apartments are about 60% complete and trust does not think it will have to foreclose. The last two problem loans, both in foreclosure, are a mobile home park in Colorado and land in Mich.

Financing & liquidity: Trust is funded 31% by capital and 69% by non-convertible debt. Capital of $14.1M is all equity with 775T shares. Debt of $31.0M is 98% bank notes and 2% mtg. Some 67% of funds float with market rates. Trust has bank lines of $33.1M and feels its funds are adequate with about $2.7M unused bank lines for $5.6M unfunded loans. It is not contemplating going into a revolving credit agreement. Sponsor: Eberhardt Co. of Minneapolis and City Bond and Mortgage Co. of Kansas City, two mortgage banking firms. Results & outlook: Trust's earnings in the past two quarters were adversely affected by higher interest cost and larger additions to the loss reserve. Rising problem investments in these quarters also hurt results. If problem investments can be held down in the next few quarters, earnings and dividends should be able to hold steady. Lack of new investment growth will inhibit significant earnings gains. Shares of this smaller, unseasoned trust are moved up to a No. 3 (average) ranking. (VCK)

FIRST COMMERCE REALTY INVESTORS (8 5/8 BID-OTC-FCRNS) FY Dec. 31

| Quar. | Port. | Port.Yld. | Non-earn.Inv. | EPS Prim. | Div. | -Price range- | -Yld.range- |
|---|---|---|---|---|---|---|---|
| 12/73 | $53.8M | 13.14% | 0.0% | $0.57 | $0.68 | $24.88-14.00 | 19.4-10.9% |
| 3/74 | 55.5 | 13.00 | 0.0 | 0.60 | 0.60 | 17.50-14.75 | 16.3-13.7 |
| 6/74 | 54.6 | 15.35 | 0.0 | 0.71 | 0.60 | 14.63-11.00 | 21.8-16.4 |
| 9/74 | 56.7 | 16.22 | 0.7 | 0.56 | 0.60 | 11.00- 7.75 | 31.0-21.8 |

Portfolio dynamics: Portfolio fundings have risen 50% since Sept. 1973 but there has been little growth since the December 1973 quarter when unfunded commitments peaked at $65.9M. Since then unfunded commitments have been whittled to $37.1M and mortgage fundings should peak this month at about $58M. Only new commitments being made are for income producing projects with permanent loan takeouts and yielding 4% over prime or better. A year from now fundings may be down 20% or so. Most funding growth over the past year has been in land, land development and junior mortgage loans, which have risen from 35% to 50% of holdings in the past year. Junior mtgs. are on completed properties earning adequate return, while land loans are made to borrowers believed sound. The land loans are acknowledged as the weakest portion of the portfolio, however, and have produced the only problems to date. Trust has concentrated less upon rapid growth and more upon serving needs of construction borrowers in its five-state Gulf region (where its sponsoring bank has been an active construction lender for years). Sept. 30 holdings were 40% construction loans, 30% land development loans, 10% land loans, 10% junior mtgs., 4% warehouse, 3½% intermediate-term loans, and 3% land purchase/leasebacks. By location, 56% are in Louisiana and 22% in Texas. Virtually all loans are originated from borrowers directly without brokers and about 80% are covered by takeouts. About 85% float with the prime rate. Non-residential properties are accented with 34% of construction commitments in shopping centers, 18% in office buildings, 11% in townhouses, 8% each in motels and houses, 7% each in apartments and warehousing, 6% in a tennis facility. Less than 5% of holdings are in condominiums, none in Florida. The trust began operating in February 1973 and escaped problem loans until August when a $382T land loan in El Paso, Tex. was placed on non-earning status. In October the Trust put a second $1.98M loan on a Houston tract to the same borrower on non-accrual, bringing non-earning investments to 4.2% of portfolio. A third $869T loan to this borrower is current.

Financing & liquidity: Total funds of $65.7M are 64% non-convertible debt and 36% shareholders' equity with 1.01M shares. Debt of $42.0M is 98% in short-term bank borrowings and 2% in mortgage debt on land/leasebacks. Borrowings of $41.0M under $50.9M bank lines

appear adequate for projected fundings. The sponsor has granted an additional $6M line to aid. Sponsor: First Commerce Corp., New Orleans one-bank holding co. Results & outlook: Portfolio yield rose during the September qtr. but a $240T (or 24¢/sh.) provision for possible losses lowered earnings to 56¢. The loss reserve now is 0.41% of mortgage holdings, good for a trust less than two years old. Non-earning investments, now 4.2% of portfolio, have been well controlled. While near-term earnings and dividends may be choppy, depending upon the year-end audit, strong management should be able to ride out the current construction depression. The shares are ranked No. 3 (average) for yield and possible price recovery. (KDC)

GUARDIAN MORTGAGE INVESTORS (2 1/8--NYSE-GMI) FY Feb. 28/29

| Quar. | Port. | Port.Yld. | Non-earn.Inv. | EPS Prim. | Div. | -Price range- | -Yld.range- |
|---|---|---|---|---|---|---|---|
| 11/73 | $416.2M | 13.97% | 1.9% | $1.14 | $1.08 | $38.00-22.00 | 19.6-11.4% |
| 2/74 | 424.9 | 13.51 | 3.8 | 0.68 | 0.74 | 30.38-18.00 | 16.4- 9.7 |
| 5/74 | 435.5 | 13.01 | 6.9 | 0.69 | 0.50 | 20.50- 8.63 | 23.2- 9.8 |
| 8/74 | 442.1 | 13.14 | 6.4 | 1.17d | 0.25 | 10.25- 3.13 | 32.0- 9.8 |

d-deficit

Portfolio dynamics: Investments increased 13% in the past year but will show no growth in the next twelve months. The trust is not making new commitments. No major change in portfolio composition is expected except for real estate owned to increase due to more foreclosures. At Aug. the portfolio was 52% constr., 18% land acq., 13% land devel., 6% standby, 4% each long-term and second mtg., 2% real estate owned and 1% property acquired through foreclosure. There are seven properties in the acquired category, the largest being a completed but unoccupied office building in Pasadena, Tex. Investments by type are 43% commercial projects, 23% planned and single family residences, 16% condominiums, 15% apartments and 3% miscellaneous. The 31% in land devel. and land acquisition loans and 16% in condos appear to be the most vulnerable portion of the portfolio. Geographically loans are distributed 61% Southeast, 19% Northeast, 10% Far West, 7% Midwest and 3% P.R. & U.S. Virgin Is. The percentage of loans that float with market rates was not available. The trust recently reported that as of Nov. 1 non-accruals amounted to $126 million or 28% of the portfolio. (The non-accruals do not include foreclosed properties.) Some 54% of non-accruals were construction loans. There were 43 constr. loans for $68 million and by type of projects these constr. loans were 29% condos, 28% rental apartments, 18% single-family, 13% hotels and motels and 12% shopping centers. Another 35% of non-accruals was represented by 51 land acquisition and land development loans amounting to $44 million. The remaining 11% of non-accruals were 9 standing, permanent or junior loans totaling $14 million.

Financing & liquidity: Trust is funded 24% by capital and 76% by non-convertible debt. Capital of $112.4 million is 70% in equity with 3.00M shares, 22% in 7½% senior subordinated notes and 8% in two convt. debentures (6-3/4 & 8%). Debt of $363.6M is 57% bank loans, 30% Eurodollar loans, 11% term loans and 2% commercial paper. Trust was to be out of commercial paper by Nov. 30. Bank lines are $380M and the trust is negotiating for a revolving credit. Amount of the agreement was not stated but the revolver will carry the usual restrictions on dividends (annual only) and barring new commitments. This should assure liquidity. Results & outlook: The loss in the Aug. qtr. was mainly caused by the $3.9 million ($1.30 per share) addition to the loss reserve. The significant increase in non-accruals will hurt Nov. results almost as much as the high interest costs. Dividends will also be restricted under terms of the new revolving credit agreement. Due to these unfavorable factors the trust's shares carry a "5" (lowest) in relative appeal ranking. (VCK)

M&T MORTGAGE INVESTORS (4½--OTC-MTMIS) FY Aug. 31

| Quar. | Port. | Port.Yld. | Non-earn.Inv. | EPS Prim. | Div. | -Price range- | -Yld.range- |
|---|---|---|---|---|---|---|---|
| 11/73 | $41.0M | 12.48% | 0.0% | $0.30 | $0.29 | $10.75- 6.50 | 17.9-10.8% |
| 2/74 | 41.1 | 12.13 | 0.0 | 0.25 | 0.26 | 9.25- 7.00 | 14.9-11.2 |
| 5/74 | 41.8 | 12.07 | 0.0 | 0.29 | 0.26 | 7.50- 5.25 | 19.8-13.9 |
| 8/74 | 41.6 | 13.40 | 0.0 | 0.23 | 0.26 | 7.00- 3.00 | 34.7-14.9 |

Portfolio dynamics: Fundings had a gain of 2% during the past year and in the next twelve months growth will be minimal. Trust is still making new commitments but at a

very slow rate. Present commitments amount to $9.2 million. The portfolio by loan type is 53% constr., 12% land development, 24% conventional mtg., 6% warehousing notes (mostly land devel. loans), 4% FHA & VA loans and 1% second conventional mtg. By project type, the portfolio is 78% single-family, 7% office bldg. and warehouses, 4% each restaurants and shopping centers, 3% other and 2% each apartments and school properties. Loans are all located in Texas. Loans are either covered by FHA & VA or by a permanent mtg. from the parent company which is a mtg. banker. All construction and land development loans float with market rates so that 65% of the portfolio floats. Management states that the portfolio has no foreclosed properties and that non-accruals are presently less than 2% of the portfolio. The non-accruals are mostly single-family projects and primarily construction loans. During fiscal 1974 the trust sold $2.1 million of foreclosed properties to companies affiliated with the adviser.

Financing & liquidity: Trust is funded 36% by capital and 64% by non-convertible debt. Capital of $15.2M is all equity with 1.48M shares. Debt of $27.2 million is all bank loans. Thus 64% of funds float with market rates. Bank lines amount to $29.5 million presently. Management feels it has sufficient liquidity with these lines. Since leverage ratio is not too high these lines can still be expanded to meet new commitments. Trust is not contemplating going into any revolving credit agreement. Results & outlook: Aug. earnings and dividends were adversely affected by an addition to the loss reserve of $228T or $0.15 per share. Higher interest costs also hurt results. The Nov. qtr. results will also be hurt by higher interest cost so that a gain in earnings and dividends is not expected. However a positive spread between funds borrowed and funds loaned, a manageable problem loan situation and only a moderate exposure to risky areas in the portfolio should help earnings and dividend further down the road. Due to these factors the trust's relative appeal has been upgraded to a "3" ranking. (VCK)

TMC MORTGAGE INVESTORS (5 ¼--ASE-TMG) FY Mar. 31

| Quar. | Port. | Port.Yld. | Non-earn.Inv. | EPS Prim. | Div. | -Price range- | -Yld.range- |
|---|---|---|---|---|---|---|---|
| 12/73 | $57.6M | 17.69% | 0.0% | $0.98 | $0.98 | $28.63-17.63 | 22.2-13.7% |
| 3/74 | 63.8 | 16.51 | 0.0 | 1.01 | 1.01 | 22.75-16.13 | 25.0-17.7 |
| 6/74 | 75.9 | 17.98 | 0.0 | 1.04 | 1.01 | 20.38-10.75 | 37.6-19.8 |
| 9/74 | 83.4 | 17.58 | 5.5 | 0.51 | 0.51 | 15.00- 6.50 | 31.4-13.6 |

Portfolio dynamics: TMC Mortgage holds one of the industry's most unorthodox short-term construction loan portfolios but has achieved good results since beginning operations nearly two years ago. Significant differences are:

1) Holdings are limited to two geographic areas, Puerto Rico and southern Florida. All Florida projects are developed by companies controlled by Puerto Ricans or Cuban-Americans which account for about 40% of residential building there. At Sept. 1974 trust was financing 35 residential and commercial projects in Puerto Rico, with 81% of funded investments there, and 14 residential projects in Florida with 19% of portfolio.

2) Projects are usually initiated and packaged with involvement of Trust Mortgage Corp., mortgage banker and trust sponsor. Trust Mortgage usually supervises and services each financing, resulting in close relationships with trust borrowers. The packaging aspect accounts for a large part of the premium return attained by the trust.

3) The trust invests almost exclusively in urban primary single-family or multi-family condominium residential projects. Funded investments have risen 66% over the past year and have continued rising through the Sept. qtr. Some slower growth is in sight, however, as new commitments are not being made. The trust has $56.8M closed commitments for funding over the next 32 months. The close sponsor-borrower relationship has provided extremely tight supervision of construction so that cost overruns and similar problems have been largely avoided. Trust borrowers are finding their sales efforts, especially for condominiums in Puerto Rico, slowed dramatically by extremely negative consumer attitudes accented by an unemployment rate said to be approaching 20% in Puerto Rico. The Puerto Rican Congress in November enacted a series of aids to private builders, the most significant being property tax exemption for all buyers of new homes or condominiums in the next three fiscal years. As a result a $50,000 condo in Puerto Rico can be bought for $3,000 down, with the buyer saving an estimated $80 monthly property taxes for three years. Trust Mortgage and Trust borrowers are now launching an intensive sales campaign, with first results hopefully to be seen in January. To recognize the slow sales for borrowers,

the Trust is eliminating interest on seven loans for \$4.6M (or 5.5% of fundings) in the December qtr.; the loans provided \$220T interest (or 27½¢/sh.) in the September qtr. In addition the trust reduced interest on six other loans of \$21M for Sept. & Dec. qtrs., reducing earnings by \$389T (or 48½¢/sh.) in the Sept. qtr. Future interest reductions and non-accruals will depend largely upon success of the sales program.

Financing & liquidity: Total funds of \$83.1M are 82% non-convertible debt and 18% shareholders's equity, with 800T shares. Debt of \$68.2M is 72% secured and 28% unsecured. Construction loans of \$69.7M secure the \$49.0M of secured debt, which carries interest at 2% to 4½% over prime but does not require compensating balances. Loan interest reductions narrowed the trust's spread on borrowings sharply in the Sept. qtr. but falling rates should aid the spread. At Sept. 30 the trust had \$50.8M of unused secured credit available, vs. \$56.8M unfunded commitments. While tight, liquidity thus appears adequate. Sponsor: Trust Mortgage Corp., Puerto Rico based mortgage banker. Results & outlook: Sept. qtr. results plunged 51% to 51¢/share after a \$200T special provision for losses (or 25¢/share) and interest reductions of 48½¢/share. The interest reductions lowered yield by 1.95% and accounted for all the narrowing of spread. The Dec. qtr. likely will be lower by the 27½¢ of non-earning investments. Future quarters will be influenced by results of the new condo sales effort. Until these uncertainties are resolved, shares must retain a No. 4 (below average) relative appeal ranking. (KDC)

NATIONWIDE REAL ESTATE INVESTORS (3¼--OTC-NRELS) FY Mar. 31
(Formerly Galbreath First Mortgage Investments)

| Quar. | Port. | Port.Yld. | Non-earn.Inv. | EPS Prim. | Div. | -Price Range- | -Yld.range- |
|---|---|---|---|---|---|---|---|
| 12/73 | \$59.7M | 10.72% | 12.3% | \$0.42 | \$0.34 | \$22.13- 7.50 | 18.1- 6.2% |
| 3/74 | 61.4 | 9.25 | 14.9 | 0.26 | 0.34 | 12.00- 8.50 | 16.0-11.3 |
| 6/74 | 57.0 | 10.61 | 7.3 | 0.25 | 0.25 | 11.00- 6.25 | 16.0- 9.1 |
| 9/74 | 49.8 | 10.79 | 13.9 | 0.17 | 0.10 | 7.75- 4.25 | 9.4- 5.2 |

Portfolio dynamics: Fundings declined 17% in the past year due to heavy payoffs of loans. The trust is actively seeking new commitments but only if there are firm permanent takeouts. New commitments are being made on apartments, shopping centers and commercial properties. The trust therefore expects modest portfolio growth next year. Investments by loan type are 33% constr., 26% conventional permanent, 14% FHA & VA permanent, 10% loans on which interest is not being accrued, 10% property acquired through foreclosure and 7% land development. Of the \$4.8 million of property acquired through foreclosure only \$2 million is not producing income. The \$2 million consists of land in Minn. and a condo in Fla. The portfolio by project type is 22% condominiums, 16% each single-family and medical, 12% apartments, 9% hotels and motels, 7% office buildings, 5% land acq. and devel., 4% each retail and recreational, 3% other and 2% industrial. Investments are in 14 states and Wash. D.C. concentrated in Ohio-42% and Ind.-15%. Close to 95% of loans have permanent takeouts. About 90-95% of construction and development loans float with market rates so that 36-38% of the entire portfolio floats. Trust recently reported that non-accruals and foreclosed non-earning properties totalled \$8.1 million or 16.3% of the Sept. port. and 32% of equity. The \$8.1 million figure includes the \$2 million in foreclosed properties. The rise in non-accruals from Sept. resulted from the trust starting foreclosure on a \$1.2 million permanent hotel loan. Trust states the hotel has good cash flow. The other \$4.9 million of non-accruals are mostly on condos with some land, residential and one small shopping center. Most non-accruing loans are located in Fla., Ind. and Mich.

Financing & liquidity: Trust is funded 58% by capital and 42% by non-convertible debt. Capital of \$31.7M is 80% in equity with 1.05M shares and 20% in convt. deben. Debt of \$23.3M is all bank loans. Bank lines amount to \$49.5 million so the trust has sufficient liquidity to meet commitments of \$24.9 million at Sept. 30. Trust is not contemplating any revolving credit agreement. Results & outlook: Lower revenues resulted from fewer investments and primarily caused the sharp decline in Sept. earnings and dividends. Earnings will not likely recover significantly in the Dec. qtr. as loans will not grow quickly. Problem investments and a negative spread will also hurt. A ranking of "4" is therefore maintained although the shares may develop speculative appeal in the future given asset growth and control of problem loans. (VCK)